Income Investors: 1 Simple Trick to Supercharge Your Income

Description

Dividend investors all have one common goal–more income.

Probably the easiest way to accomplish this is to switch out of solid dividend payers and into names that are a little more risky. You'd immediately increase your income, but at a price.

There are certainly dividends of 8-10% out there that are sustainable. But many aren't. They're fraught with risks that can sometimes take even the smartest investors by surprise. I firmly believe that as a group, high-yielding stocks are relatively safe. The issue is when investors try picking them on an individual basis.

Fortunately, there's a solution that doesn't require switching out of some of your favourite stocks. There's a way to get extra income by making one simple adjustment.

Use a DRIP

A dividend reinvestment plan (DRIP) is an underrated tool in the average investor's arsenal.

We already know how reinvesting dividends can lead to some great returns. Say you owned a $40 stock that paid $2 per year in dividends, a yield of 5%. If you held 100 shares of this stock and reinvested the dividends, after a year you'd have 105 shares. After year two you'd have 110. And after 10 years you'd have nearly 163–assuming everything else stayed the same, of course.

These 163 shares would be churning out an annual dividend of $326, a big improvement over the $200 originally. And that's without investing another dollar of your own capital.

Some companies go even further. In an effort to encourage investors to reinvest their dividends, they'll offer a discount of up to 5% if they choose that route.

There's one big reason why a company would do this. The capital that would normally be paid out to shareholders can be put to use paying down debt, expanding, or for other general corporate uses.

Sure, shareholders do get diluted, but for the investors plowing their dividends back into the company, it’s all a wash. Shareholders get slightly diluted every time the company pays a dividend, but the investors using a DRIP just own a little more of the company.

Examples

There are dozens of Canadian companies that offer DRIPs. They range from some of the largest blue chips to small companies you’ve never heard of.

One of the biggest is **RioCan Real Estate Investment Trust** (TSX:REI.UN). The company is Canada’s largest owner of retail property with 293 properties covering more than 65 million square feet of leasable space. It’s also the owner of 49 American properties in the northeast and in Texas, properties that will be sold to Blackstone Real Estate Partners VIII for US$1.9 billion.

RioCan will put the money towards paying down debt, buying out a partner in a joint venture, and ramping up its expansion program. RioCan has dozens of different properties it can profitably redevelop since it has long paid for the land. This new expansion plan should really help it increase earnings and, hopefully for shareholders, dividends.

RioCan currently has a 5.8% yield. If RioCan investors choose to take their dividends in the form of more shares, they’ll get a 3.1% bonus for doing so. This boosts the dividend to over 6%.

A company that offers a more generous reward for shareholders that reinvest dividends is power producer **Emera Inc.** (TSX:EMA).

Emera has been on an acquisition spree lately. It agreed to acquire **TECO Energy** in 2015, a deal that’s expected to close around the middle of the year. Including assumed debt, Emera will spend more than US$10 billion on TECO. It also just announced a smaller deal to fully buy out its subsidiary in the Caribbean.

Emera currently pays a 4.3% dividend. After investors get their 5% bonus for reinvesting their dividends, the yield jumps up to 4.56%. This makes Emera’s payout one of the more attractive ones in the whole sector.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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